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OFFICE OF ENTREPRENEURIAL DEVELOPMENT

**An Introduction to the U.S. Small Business Administration
(SBA)**

The U.S. Small Business Administration (SBA):

With a portfolio of business loans, loan guarantees, and venture capital instruments worth more than \$4,964 billion - in addition to a disaster loan portfolio of \$3.1 billion -- the SBA is the nation's largest single financial backer of small businesses.

What is the SBA?

- A small, independent federal agency of the United States government.
- Mandate: Aid, counsel, assist and protect the interests of small business concerns, preserve free competitive enterprise, and maintain and strengthen the overall economy of the nation.
- The Fiscal Year 2006 budget – approximately \$580 million. The SBA's budget is appropriated annually through Congress. See <http://www.sba.gov/aboutsba/budgetplans.html>.
- This represents 2.23/100 of 1% of the total federal budget, yet the SBA is one of the 5 largest federal credit agencies.

History:

- Created by the Small Business Act in 1953. See <http://www.sba.gov/regulations/sbaact/sbaact.html>
- Predecessor Institutions: The Smaller War Plants Corporation, the Reconstruction Finance Corporation, Office of Small Business, and the Small Defense Plants Administration. See <http://www.sba.gov/aboutsba/history.html>
- Service Delivery Structure: Through SBA's 90 regional and district and branch offices: See <http://www.sba.gov/regions/states.html>. Also through SBA's financial participants and resource partners.

U.S. Small Businesses:

- Represent more than 99.7 percent of all employers.
- Generate 60 to 80 percent of net new jobs annually.
- Employ more than half of all private sector workers.
- Pay 44.3 percent of the total U.S. private payroll.
- Provide over 50 percent of non-farm private gross domestic product (GDP).
- See <http://www.sba.gov/advo/stats/sbfaq.pdf>

**DEFINITION OF A “SMALL BUSINESS”
Eligibility for SBA Programs:**

For Eligibility for SBA Programs:	Size standards by industry category.
Specifically:	The size of a small business is defined by SBA’s Office of Size Standards http://www.sba.gov/size . Size standards are based on the North American Industrial Classification System (NAICS). Each industry is assigned size standards based the number of people employed or sales over a given period of time.
Important:	The business is “small” <i>relative to all the businesses within that industry</i> . In general, the following criteria are used by SBA to determine if a concern qualifies as a Small Business: <i>Wholesale</i> : Not more than 100 employees. <i>Retail or Service</i> : Average (3 years) sales not to exceed annual sales or receipts of more than \$4.0 to \$30.0 million. <i>Manufacturing</i> : Not more than 500 employees, but up to 1,500 in some cases. <i>Construction</i> : Average (3years) annual sales or receipts at not more that \$12.0 to \$28.5 million, depending on the specific business type. See http://www.sba.gov/businessop/standards/smallbus.html
Important:	In order to qualify for SBA lending and government contracting programs, a small business MUST meet the specified SBA-designated definition of “Small Business.”

**DEFINITION OF A “SMALL BUSINESS”
For Research Purposes:**

SBA’s Office of Advocacy defines a small business for research purpose as:	An independent business having fewer than 500 employees.
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SBA'S FOUR PROGRAMMATIC FUNCTIONS

I. *ACCESS TO CAPITAL* (Business Financing)

SBA provides small businesses with an array of financing for small businesses from the smallest needs in microlending --- to substantial debt and equity investment capital (venture capital).

II. *ENTREPRENEURIAL DEVELOPMENT* (Education, Information, Technical Assistance & Training)

SBA provides free individual face-to-face, and internet counseling for small businesses, and low-cost training to nascent entrepreneurs and established small businesses in over 1,800 locations throughout the United States and US territories.

III. *GOVERNMENT CONTRACTING* (Federal Procurement)

In keeping with the mandate of Section 15(g) of the Small Business Act, SBA's Office of Government Contracting sets goals with other federal departments and agencies to reach the statutory goal of 23 percent in prime contract dollars to small businesses. This office also provides small businesses with subcontracting procurement opportunities, outreach programs, and training.

IV. *ADVOCACY* (Voice for Small Business)

Created in 1978, this Office reviews Congressional legislation and testifies on behalf of small business. It also assesses the impact of the regulatory burden on behalf of small businesses. Additionally, it conducts a vast array of research on American small businesses and the small business environment. The Chief Counsel of this office is appointed by the President of the United States.

ACCESS TO CAPITAL

A. *Lending Programs*

1. 7(a) Loan Guaranty Program
2. 504 Lending Program
3. Microloan Program

B. *Investment (Venture Capital)*

1. Small Business Investment Company (SBIC) Program

C. *Emergency Recovery*

1. Disaster Loan Program

A.1. 7(a) Loan Guaranty Program

1. For FY 2005 the SBA approved nearly 88,912 loan guaranties amounting to a record \$14 billion in the 7(a) General Business Loan Guaranty Program.
2. Guarantees approximately 75% of short and long-term loans of up to \$2 million through commercial lending institutions.
3. This program covers many loan products and applications, from working capital to export financing.
4. Approximately 6,000 commercial banks can provide SBA guaranteed 7(a) loans in coordination with SBA's District Offices and Loan Processing Centers.
5. Average loan amount under this program is \$240,000.
6. See: <http://www.sba.gov/financing/fr7aloan.html>

A.2. 504 (CDC) Loan Program

- Through a network of Certified Development Companies (CDCs), the SBA provides growing businesses with longterm financing for major fixed assets such as land and buildings.
- A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community, and to create and retain jobs in the communities they serve. CDCs work with the SBA and private-sector lenders to provide financing to small businesses.
- There are about 270 CDCs nationwide. Each CDC covers a specific geographic area.
- See <http://www.sba.gov/financing/frcdc504.html>
- For Fiscal Year 2005 SBA approved 8,979 loans worth \$4.9 billion under the Certified Development Company (CDC) Loan Program.

A.3. Microloan Program

- Promotes economic empowerment at the smallest levels.
- Provides small loans of up to \$35,000 to small businesses through a network of local community-based intermediary lenders (NGOs).
- SBA provides financing at a discount rate to the microlender intermediary (NGO) who re-lends to the micro-borrower.
- Each loan must be accompanied by a grant for technical assistance (training).

- 170 intermediaries disburse SBA-funded micro-credit loans.
- See <http://www.sba.gov/financing/frmicro.html>
- In Fiscal Year 2005 SBA's Microloan Program provided \$31 million in loans to more than 2,400 borrowers. Since 1992, more than \$285 million has been loaned under the Microloan Program to more than 21,300 micro-borrowing entrepreneurs.

B.1. Small Business Investment Company (SBIC) Program

- The SBIC Program is the Agency's premier vehicle for providing venture capital to small, growing companies.
- The SBA licenses professional venture capitalists, who form SBICs, either in the form of limited partnerships (LPs) limited liability companies (LLCs). The SBA then leverages the SBICs' private funds through loan guarantees.
- SBICs make equity or debt/equity investments in small businesses and help the businesses grow. Once the businesses "exit" successfully, the SBICs repay SBA with the profits. The funding period usually lasts from seven to ten years.
- High-risk, "non-traditional" financing.
- Delivery structure: 418 private venture capitalist entities, called Small Business Investment Companies (SBICs).
- In Fiscal Year 2005, the SBIC Program produced \$2.9 billion in equity and debt capital investments during the year. The program's licensed SBICs made approximately 4,000 investments in approximately 2,300 different small businesses. See <http://www.sba.gov/INV>

C.1. Disaster Loan Program

- The SBA's Disaster Assistance Loan Program is the primary federal program for funding long-range recovery for private sector, nonagricultural disaster victims.
- The SBA Disaster Loan Program is the major, federal, long-term recovery program for *individual* Disaster losses. Loans are available to qualified homeowners for uninsured losses up to \$200,000 to repair or restore a primary residence to pre-disaster condition.
- Physical Disaster Business Loans are available to qualified applicant businesses of any size for uninsured losses up to million to replace or repair business property to pre-disaster Conditions.
- Loans of up to \$1.5 million are available for small businesses that sustain economic injury as the direct result of a disaster.
- SBA's Disaster Assistance loan program made 62,075 disaster recovery loans nationwide, amounting to nearly \$2.278 billion during Fiscal Year 2005.
- In late summer 2004, a rash of deadly hurricanes and floods resulted in approval of more than \$2 billion in low-interest disaster loans to about 62,000 residents and business owners in the affected southeastern states. The total surpassed the \$1 billion in disaster loans approved after the September 11, 2001 attacks.
- See http://www.sba.gov/disaster_recov/index.html.

ENTREPRENEURIAL DEVELOPMENT

The SBA's *Technical Assistance Programs* provide one-on-one counseling, free of charge to United States citizens and permanent residents interested in starting a small business. They also provide training and/or workshops on a wide variety of business related subjects at minimal cost.

Entrepreneurial Development Technical Assistance Programs and Outreach:

- I. SBDCs** –Small Business Development Centers
- II. SCORE**-Service Corps of Retired Executives
- III. WBCs**- Women's Business Centers
- IV. Small Business Training Network** –Online at sba.gov

Other SBA Technical Assistance Programs and Outreach:

- V. USEACS** – US Export Assistance Centers
- VI. SBA's Web Site, Online Library, Publications, Research and Articles.**

I. SBDCs: (*Small Business Development Centers*)

- More than 1,000 centers, most of which are located in universities throughout the country and U.S. territories.
- Cooperative effort between the SBA, the academic community, the private sector; and state and local governments.
- SBDCs tailor services to the unique needs of local economies - from rural to urban, from marine services to international trade, from government contracting to home-based businesses.
- Provide management and technical assistance.
- Assist in preparation of loan applications
- See <http://www.sba.gov/sbdc>

II. SCORE: *Counselors to America's Small Business*

- Ten thousand five hundred (10,500) retired and active senior executives and small business owner volunteers.
- Real-life, hands-on experience in starting, owning and operating a business.
- Provide expert marketing advice, business-plan preparation, pre-business planning.
- Develop and conduct training workshops.
- Email counseling – 1,200 experienced businessmen/women handle approximately 10,000 cases per month. See <http://emc.dev.score.org/index.cgi?partner=ASKSCORE&action=skills>
- Service delivery: 385 SCORE chapters for hands-on, face-to-face counseling and SCORE web site for email.

- SCORE web site: <http://www.score.org>

III. WBCs: (*Women's Business Centers*)

- Women-owned businesses in the United States employ more than 19.1 million people and contribute nearly \$2.5 trillion in sales to the economy.
- Between 1997 and 2004 women-owned businesses outpaced the economy as a whole. Their numbers increased by 14 percent nationwide – twice the rate of all firms – while employment increased by 30 percent – 1½ times the national rate. Sales grew by 40 percent, equaling the national rate.
- Provide counseling and training for women nationwide. See <http://www.onlinewbc.gov/>
- Offer mentor programs for women in the process of running a small business
- Service Delivery: 101 WBCs in 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and American Samoa.
- See <http://www.sba.gov/financing/special/women.html>.

IV. Small Business Training Network:

- A virtual campus housing free training courses, workshops and knowledge resources
- Designed to assist entrepreneurs and other students of enterprise.
- Internet-based learning environment
- Offers online courses, workshops, publications, information resources, learning tools and direct access to electronic counseling, and other forms of technical assistance.
- See <http://www.sba.gov/training/>

V. U.S. Export Assistance Centers (USEACs):

- A combined effort of the SBA, the U.S. Department of Commerce, and EXIM Bank.
- The SBA's role via the Office of International Trade: See <http://www.sba.gov/oit>
- Export working capital pre-qualification
- International trade loans and export working capital loan processing
- Delivery service: 16 U.S. Export Assistance Centers
- See: <http://www.sba.gov/oit/export/useac.html>

VI. SBA's Website, Online Library, Articles and Research Papers:

- SBA maintains over 45,000 pages of information on its website, which has received 18 awards
- The SBA website averaged 18 million hits a week last fiscal year (FY 05)
- The third most popular site is the Online Library at www.sba.gov/library. The Reports Room at: <http://www.sba.gov/library/reportsroom.html> houses loan statistics and loss reports, as well as extensive small business research conducted by SBA's Office of Advocacy. The library also houses SBA publications, fact sheets and workbooks at <http://www.sba.gov/library/pubs.html>

GOVERNMENT CONTRACTING (Federal Procurement)

The United States government is the single largest purchaser of goods and services in the world. The federal procurement is approximately \$200 billion annually. Each year, the SBA's Office of Government

Contracting assists small businesses in acquiring approximately 23 percent of this federal procurement budget in prime contract dollars. This is a legislated goal mandated by Congress and has been achieved the last three years. This office also provides small businesses with subcontracting procurement opportunities, outreach programs and training.

Government Contracting (Federal Procurement)

- See Government Contracting: <http://www.sba.gov/GC/indexwhatwedo.html>
- Goaling Program: <http://www.sba.gov/GC/goals/> and <http://www.sba.gov/GC/goals/indexmethod.html>
- CCR-PRO-Net : <http://www.sba.gov/businessop/marketing/register.html> and SUB-Net: <http://web.sba.gov/subnet/> .

The status of small business procurement may be verified by looking at the following Federal Procurement Data Center report:

- Federal Procurement Report: <http://www.fpdc.gov/fpdc/fpr.htm> for general information. (The Small Business Administration (SBA) is number 54 in Section III - Agency Views)

Small Business Innovation & Small Business Technology Transfer Programs (SBIR/STTR), Office of Technology

- Promotes federal high-tech programs to improve competitive capability of small business R&D firms
- Encourages state-of-the-market technology training, technology information exchange, and outreach on federal technology programs
- Encourages private and public resource support for the commercialization of federal R&D efforts
- See <http://www.sba.gov/sbir/indexwhatwedo.html>.
- See TECH-Net at: <http://www.sba.gov/sbir/indextechnet.html>.

OFFICE of ADVOCACY

- The Office of Advocacy was created in 1976 by an Act of Congress.
- Mandate: Protect, strengthen and effectively represent the nation's small businesses within the federal government's legislative and rule-making processes. See <http://www.sba.gov/advo/about.html>
- The Chief Counsel is appointed by the President of the United States and confirmed by the Senate, and reports directly to the President and to Congress.
- Advocacy provides congressional testimony in favor of small business. See recent testimony at <http://www.sba.gov/advo/laws/testimon.html#General>
- Advocacy's Office of InterAgency Affairs pursues regulatory initiatives in accordance with the Regulatory Fairness Flexibility Act, and other policy initiatives that support small business growth. See <http://www.sba.gov/advo/laws/regflex.html> and http://www.sba.gov/advo/laws/law_fun.html
- Advocacy's Office of Economic Research conducts research and provides statistics on small business; publishes small business reports and data. See: <http://www.sba.gov/advo/research/>
- Ten Regional Advocates: represent the Eyes and Ears of the U.S. Small Business Community <http://www.sba.gov/advo/region.html> .
- The Small Business State Profiles provide an overview of the important role small businesses play in each state. See: <http://www.sba.gov/advo/research/profiles/> .

OFFICE of the NATIONAL OMBUDSMAN

- Established in 1996 by the Small Business Regulatory Enforcement Fairness Act.
- Charged to foster a more small business-friendly federal regulatory enforcement environment.
- Conduct hearings and roundtables across the country designed to increase input from small business.
- Functions as a liaison between small business and federal agencies.
- Coordinates the activities of 10 regional Regulatory Fairness Boards.
- Rates federal regulatory agencies and sends a "Report Card" to Congress.
- See <http://www.sba.gov/ombudsman> .